



# Memorandum

**TO:** HONORABLE MAYOR AND  
CITY COUNCIL

**FROM:** Larry D. Lisenbee

**SUBJECT: MONTHLY FINANCIAL REPORT  
AUGUST 2002**

**DATE:** October 2, 2002

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Approved

Date

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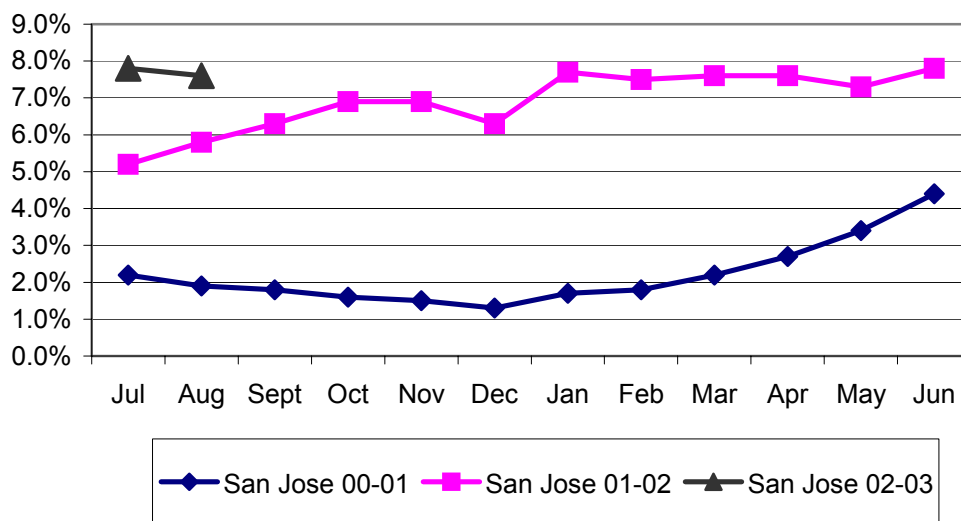
The Monthly Financial Report (MFR) for August has been jointly prepared by the City Manager's Budget Office and the Finance Department and is presented here for the City Council's review.

## OVERVIEW

A review of the financial status of the City through the first two months of the fiscal year, although based on very limited data, confirms the fact that the City continues to be negatively impacted by the severe slowdown in the local economy. The situation seems to have stabilized, but shows no real sign of recovery.

The unemployment rate and the number of wage and salary jobs remain the strongest indicators of local economic performance. The Santa Clara County unemployment rate was at 7.6% through August, above both the state and national rates which were 6.2% and 5.7%, respectively.

San Jose Metropolitan Statistical Area  
(Santa Clara County)  
Unemployment Rate Comparison



## **OVERVIEW (CONT'D.)**

This local rate was relatively unchanged from that experienced in the previous two months, both at 7.8%. This compares to the low point, reached 20 months ago (December 2000) of 1.3%. Beyond the unemployment rate, which has stayed relatively stable for a few months, the number of jobs in the area continues to shrink. The number of wage and salary jobs in August was estimated at 966,700, down by 3,600 from July. Many of our largest Sales Tax revenue generators continue to indicate that sales are sluggish, and in the tech sectors, all indicators point to continued low activity for at least the rest of this fiscal year.

The state of the economy is directly reflected in collections of the economically sensitive revenues that have been suffering for over a year. The most dramatic illustration of the impact can be seen in the General Fund's largest single revenue source, Sales Tax. The City recently received its latest General Sales Tax information (representing the final quarter of the 2002-2002 fiscal year) and the news again was not good. While not reflected in the August numbers shown in this report, the September final Quarterly Sales Tax reconciliation (representing economic activity in April, May and June) was down 16.7% from the same quarter in the prior year. This marks the fourth quarter in a row of double-digit drops (first quarter of last year down 19.8%, second quarter down 18.2%, third quarter down 24.0%). The Budget Office had anticipated poor performance, and built a conservative 25.0% drop into the 2001-2002 fourth quarter accrual. This actually allows the City to begin the new fiscal year with a small cushion in Sales Tax revenue. This collection level was, however, well below the level anticipated when the 2002-2003 estimate was constructed. Thus, it is very clear that the current year estimate needs to be adjusted downward, and a recommendation to that effect is included in the recently released City Managers 2001-2002 Annual Report document. Similarly, the review of final collection totals for last year have caused us to conclude that several other revenue estimates also need to be adjusted downward. As a result of the final collection trend and, downward revenue adjustments recommended in the Annual Report in the General Fund total \$15.0 million. These adjustments can be offset by higher than anticipated year-ending fund balance, and unanticipated revenue that will be available from the sale of surplus property.

We also continue to be concerned about additional State budget actions. As discussed in the 2001-2002 Annual Report, the current State Budget did not significantly impact the City, reducing revenues by approximately \$1.0 million. We strongly suspect, however, that the State will need to take additional budget balancing actions before the year is over, which could very well involve cuts to local government revenue streams (e.g., Motor Vehicle In-Lieu).

Given the uncertainty concerning potential State impacts and the length of the current recession, the Administration continues to act aggressively to implement those actions that we believe necessary to prepare the organization for additional fiscal challenges and keep us in the relatively strong financial position that we have maintained to this point. As discussed previously, downward revisions to several General Fund revenue estimates necessary to reflect current conditions are recommended in the Annual Report, along with the proposed establishment of additional reserves for future deficits. In addition, at the beginning of September, all departments were notified that the hiring freeze was to continue indefinitely, and cost management plan reduction targets were assigned. We will continue to closely monitor our financial position, and recommend additional actions should they appear necessary.

## GENERAL FUND

### REVENUES

General Fund revenues through August 2002 totaled \$78.4 million. This was a decrease of \$2.9 million (down 3.5%) from the August 2001 level of \$81.3 million. The decline in General Fund collections reflects decreases in the following revenue categories: Use of Money and Property, Revenue from the State of California, Departmental Charges, and Other Revenue, only partially offset by increases in the following revenue categories: Franchise Fees, Revenue from Local Agencies, as well as Transfers and Reimbursements.

The following discussion highlights General Fund activities through August:

#### KEY GENERAL FUND REVENUES (\$000's)

<u>Revenue</u>	<u>2002-2003 Estimate</u>	<u>YTD Actual</u>
<b>Property Tax</b>	<b>\$ 86,278</b>	<b>\$ 319</b>

Year-to-date Property Tax revenues reflect collections in only the smallest property tax category, SB 813 Property Taxes (supplemental taxes). In this category, payments of \$249,000 tracked 33.4% below last year's collection level of \$374,000. Collections in this category, representing payments for taxes owed on recent housing resales are typically a leading indicator of a drop in sales activities. Consistent with previous years, no payments for Secured Property Taxes have been received through August. Initial data from the County of Santa Clara indicates growth is currently at the expected level for 2002-2003. Staff is working with the County to confirm the preliminary information.

<u>Revenue</u>	<u>2002-2003 Estimate</u>	<u>YTD Actual</u>
<b>Sales Tax</b>	<b>\$ 148,849</b>	<b>\$ 6,011</b>

General Sales Tax receipts for August represent only State formula advance payments. General Sales Tax collections of \$6.0 million tracked 6.6% lower than the \$6.4 million collection in the prior year. Because these are advance payments, however, the decline through August is not necessarily indicative of the actual drop in receipts.

In fact, although not reflected in this report, the City has now received the most recent quarterly Sales Tax report from the State. As discussed above, and as reported in the 2001-2002 Annual Report, the City's collections levels continue to be weak, with a 16.7% decline from the same

**GENERAL FUND (CONT'D.)**

**REVENUES (CONT'D.)**

**KEY GENERAL FUND REVENUES**  
(\$000's) (Cont'd.)

<u>Revenue</u>	<u>2002-2003</u> <u>Estimate</u>	<u>YTD</u> <u>Actual</u>
<b>Sales Tax (Cont'd.)</b>	<b>\$ 148,849</b>	<b>\$ 6,011</b>

quarter last year, and represents our fourth consecutive double-digit quarterly decline in Sales Tax receipts. Our decline was considerably greater than that experienced by both the San Francisco Bay Area (-8.4%) and the State as a whole (-1.4%). The South Bay regional economy continues to be the most hard hit area in the State, if not the nation.

A conservative estimate for a 25.0% drop was included in the year-end, fourth quarter accrual. While this latest General Sales Tax information does not change the 2001-2002 final collection recorded, the slightly improved performance at year-end does provide a small, one-time "buffer" of \$3.1 million in 2002-2003 to help offset the impact of a continued, weakened, General Fund revenue situation. A downward adjustment to the General Sales Tax estimate of \$11.4 million is recommended in the Annual Report to bring that estimate in line with actual 2001-2002 collections, and to reduce expectations to a flat growth projection for the year.

Preliminary information from MBIA MuniServices, the City's Sales Tax consultants, indicates that the decline in the City's Sales Tax receipts for the most recent quarter can be attributed to poor performance in most economic sectors, but was led again, not surprisingly, by a sharp decline in the Business-to-Business category (down 35.2%). The following categories also suffered significant drops: Transportation (down 20.3%); Construction (down 6.5%); Food Products (down 6.4%); and General Retail (down 6.3%). Within the Business-to-Business category, the greatest declines were related to office equipment (down 37.7%), electronic equipment (down 35.8%), and light industry (down 47.7%). Within the Transportation sector, the greatest decline was in service stations (down 41.8%) and new auto sales (down 9.8%). The following lists the largest General Sales Tax sectors and their percentage of the total for the 2001-2002 fourth quarter (March through June economic activity): Business-to-Business at 30.6%; General Retail at 24.4%; Transportation at 21.4%; Food Products 12.9%; and Construction at 9.9%.

<u>Revenue</u>	<u>2002-2003</u> <u>Estimate</u>	<u>YTD</u> <u>Actual</u>
<b>Transient Occupancy Tax</b>	<b>\$ 8,400</b>	<b>\$ 182</b>

TOT collections through August of \$182,000 were well below last year's level of \$502,000. The drop is somewhat overstated, however, due to prior year accruals. The actual decline through

**GENERAL FUND (CONT'D.)**

**REVENUES (CONT'D.)**

**KEY GENERAL FUND REVENUES**  
(\$000's) (Cont'd.)

<u>Revenue</u>	<u>2002-2003 Estimate</u>	<u>YTD Actual</u>
<b>Transient Occupancy Tax (Cont'd)</b>	<b>\$ 8,400</b>	<b>\$ 182</b>

August, although still alarming, excluding accruals, was 19.3%. Hotel occupancy showed a slight increase. But this improvement was more than offset by a lower, overall room rate. The August 2002 occupancy rate in the largest hotels was 53.1%, up slightly from the July 2002 rate of 50.7%. The August 2002 rate, though, was still well below the August 2001 rate of 57.9%. While the number of rentable rooms remained stable over the prior year (128,000 compared to 120,000), the average room rate fell significantly, from \$143.71 to \$120.05. Given the current as well as lower than anticipated prior year-end performance results, a significant downward adjustment to the General Fund TOT estimate is recommended in the Annual Report.

<u>Revenue</u>	<u>2002-2003 Estimate</u>	<u>YTD Actual</u>
<b>Franchise Fees</b>	<b>\$ 33,857</b>	<b>\$ 4,882</b>

Collections of \$4.8 million from Franchise Fees are above the August 2001 collection level of \$3.2 million. This positive variance reflects higher collections in Electric and Gas Franchise Fees. However, these receipts are the result of formula-driven estimated payments from Pacific Gas & Electric (PG&E), based on actual collections in 2001-2002, and are not necessarily indicative of actual expected receipts. In April 2003, PG&E will calculate the actual Franchise Fees due in 2002-2003 based on calendar year 2002 activity. In addition, the August 2001 collection level was lower in part, due to an underpayment of Franchise Fees from PG&E in 2000-2001, which PG&E does not dispute. Collection of the underpayment from last year remains caught in the PG&E bankruptcy proceedings.

Due to the year-end performance of the Commercial Solid Waste Franchise Fee, a downward adjustment to the 2002-2003 revenue estimate has been recommended in the Annual Report.

<u>Revenue</u>	<u>2002-2003 Estimate</u>	<u>YTD Actual</u>
<b>Utility Tax</b>	<b>\$ 70,673</b>	<b>\$ 6,368</b>

Utility Tax collections of \$6.4 million were slightly above (6.3%) last year's level of \$6.0 million. This collection level is driven almost entirely by the accrual (\$340,000) for the prior year. Adjusting for this accrual, the performance appears to be flat. Due to the 2001-2002 year-end performance, a downward adjustment to the current year estimate has been recommended in the Annual Report.

**GENERAL FUND (CONT'D.)**

**REVENUES (CONT'D.)**

**KEY GENERAL FUND REVENUES**  
(\$000's) (Cont'd.)

<u>Revenue</u>	2002-2003 <u>Estimate</u>	YTD <u>Actual</u>
<b>Licenses and Permits</b>	<b>\$ 62,459</b>	<b>\$ 10,453</b>

Licenses and Permits revenue of \$10.5 million through August is less than one percent above the prior year level. Due to the prior year-end performance of the Disposal Facility Tax, a downward adjustment to the 2002-2003 estimate is recommended in the Annual Report.

<u>Revenue</u>	2002-2003 <u>Estimate</u>	YTD <u>Actual</u>
<b>Use of Money and Property</b>	<b>\$ 13,095</b>	<b>\$ 788</b>

As anticipated, the Use of Money and Property revenue of \$788,000 was below the prior year level of \$1.5 million primarily due to a lower cash balance and interest earnings for several special funds. The cash balance for August was down to \$207.2 million, as compared to the prior year's \$236.4 million, a decline of 12.4% (-\$29.2 million). The current budget for General Fund interest earnings was built anticipating a drop in the cash balance to \$185.0 million. Staff will continue to monitor this revenue source closely.

<u>Revenue</u>	2002-2003 <u>Estimate</u>	YTD <u>Actual</u>
<b>Revenue from Local Agencies</b>	<b>\$ 39,272</b>	<b>\$ 12,324</b>

Revenue from Local Agencies of \$12.3 million was 14.7% (\$1.6 million) above the prior year level of \$10.7 million. This variance was primarily driven by several earlier than anticipated payments: Enterprise Fund In-lieu (\$302,000), animal services payments from other agencies (\$231,000), Community Based Aftercare Program funding from the County (\$352,000), and reimbursement for staffing from the Redevelopment Agency (\$443,000). No change in the budgeted revenue estimate is currently necessary.

**GENERAL FUND (CONT'D.)**

**REVENUES (CONT'D.)**

**KEY GENERAL FUND REVENUES**  
(\$000's) (Cont'd.)

<u>Revenue</u>	2002-2003 <u>Estimate</u>	YTD <u>Actual</u>
<b>Revenue from the State of California</b>	<b>\$ 58,204</b>	<b>\$ 3,492</b>

Revenue from the State of California totaled \$3.5 million, representing a 38.2% decline from prior year collection level of \$5.7 million. The apparent decline actually primarily reflects the presence of a \$3.0 million accrual for open space activities, scheduled in 2001-2002, but yet to be paid from Proposition 12 funds by the State. This category also includes Motor Vehicle In-Lieu Fee (MVLFF) payments of \$4.8 million, reflecting year-to-date growth of 12.8% (\$550,000). This level of growth is not expected to continue. In fact, the City has since received its September MVLFF payment from the State. That payment, \$4.9 million, was below the prior year September payment of \$5.2 million, and brings year-to-date growth down to 3.1%. Budgeted MVLFF budgeted growth for 2002-2003 is currently 2.4%. Staff will continue to monitor this revenue source closely.

<u>Revenue</u>	2002-2003 <u>Estimate</u>	YTD <u>Actual</u>
<b>Revenue from the Federal Government</b>	<b>\$ 1,859</b>	<b>\$ (64)</b>

Revenue from the Federal Government reflects a negative year-to-date entry due to an accrual that was booked for anticipated revenue from the Federal Emergency Management Association for the Police Administration Building seismic retrofit. All budgeted grants are still expected to be received by year-end.

<u>Revenue</u>	2002-2003 <u>Estimate</u>	YTD <u>Actual</u>
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**Departmental Charges**

<b>-Public Works</b>	<b>\$ 6,356</b>	<b>\$ 730</b>
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Public Works August revenues of \$730,000 were well below the prior year level of \$1.9 million. Part of this decline reflects an error in booking revenue (\$700,000) in the prior year. Even adjusting for this error, the decline from the prior year is still disturbing, collections being down 38.1%. This performance reflects weak receipts in Residential Engineering, utility excavations, and materials testing categories. This situation will require close monitoring since we were forced to use all of the Public Works Fee Reserve to offset shortfalls in 2001-2002. The Budget Office will continue to work with the Department to project the year-end collection level, and contingency plans are under review should the slide in revenues continue.

**GENERAL FUND (CONT'D.)**

**REVENUES (CONT'D.)**

**KEY GENERAL FUND REVENUES**  
(\$000's) (Cont'd.)

<u>Revenue</u>	2002-2003 <u>Estimate</u>	YTD <u>Actual</u>
<b>-Transportation</b>	<b>\$ 893</b>	<b>\$ 61</b>

Transportation revenues of \$61,000 are also well below the prior year level of \$157,000. This performance was primarily due to a decline in residential signal review revenue, resulting from a decrease in the volume of development work, and a decline in miscellaneous traffic charges revenue. Miscellaneous traffic charges are composed of various revenues (e.g., property damage settlements to the City) and are subject to volatility due to the unpredictable nature of the revenue sources.

<u>Revenue</u>	2002-2003 <u>Estimate</u>	YTD <u>Actual</u>
<b>-Parks, Recreation, and Neighborhood Services</b>	<b>\$ 6,946</b>	<b>\$ 1,276</b>

Parks, Recreation, and Neighborhood Services (PRNS) revenues of \$1.3 million tracked 19.6% below the prior year level of \$1.6 million. This decline is primarily due to a timing difference in the booking of revenue related to Family Camp. It is expected that once this revenue is recorded, PRNS-related revenue should be within estimated revenue levels.

<u>Revenue</u>	2002-2003 <u>Estimate</u>	YTD <u>Actual</u>
<b>Other Revenue</b>	<b>\$ 14,495</b>	<b>\$ 3,681</b>

Other Revenue collections of \$3.7 million were \$5.3 million below the prior year level of \$9.0 million. This decline from the prior year primarily reflects the booking last year of one-time settlement revenues in the amount of \$5.5 million from the County.

<u>Revenue</u>	2002-2003 <u>Estimate</u>	YTD <u>Actual</u>
<b>Transfers and Reimbursements</b>	<b>\$ 66,021</b>	<b>\$ 25,153</b>

Transfers and Reimbursement collections of \$25.2 million were 19.7% above the prior year level of \$21.0 million. This performance through August was primarily driven by higher levels of revenue from operating and capital/special fund overhead as well as earlier receipt of Municipal Water Rate of Return revenue.



**GENERAL FUND (CONT'D.)**

**EXPENDITURES**

Through August, General Fund expenditures of \$102.9 million were 14.2% (\$12.8 million) above the prior year level of \$90.1 million. Encumbrances of \$72.6 million were 15.1% (\$9.5 million) above the prior year level of \$63.1 million. Expenditures and encumbrances (\$175.5 million) through April constitute 23.2% of the total 2002-2003 revised, budgeted use of funds (\$757.3 million, excluding reserves).

With the exception of the Fire Department and Workers' Compensation Claims, cumulative departmental and non-departmental expenditures appear to be within or below approved budgeted levels through August.

The following discussion highlights General Fund expenditures:

**KEY GENERAL FUND EXPENDITURES**  
(\$000's)

<u>Department</u>	<u>2002-2003 Budget</u>	<u>YTD Actual</u>
<b>Police</b>	<b>\$ 216,504</b>	<b>\$ 27,958</b>

Police Department expenditures were lower than estimated levels through August. The Department's Personal Services expenditures, however, tracked at slightly higher than expected levels, largely due to increased overtime usage for Airport security activities. Additional reimbursements from the Airport will be brought forward during the Mid-Year Budget Review to fully cover the costs of increased Airport security-related expenditures.

With the continuation of the Sworn Recruitment and Training Program, a total of 38 recruits are currently enrolled in the July 2002 Academy and are expected to be street-ready in May 2003. By October 2002, a total of 32 from the January 2002 Academy are expected to be street-ready.

Overtime expenditures through August were above expected levels at \$1.4 million or 17.0% of the budgeted level (compared to the estimated level of 13.5%). However, it is expected that with the exception of additional Police overtime currently being experienced at the Airport, the Department will manage its overtime to remain within the budgeted level by year-end.

The compensatory time balance at the end of August is 208,224 hours for sworn personnel. This level represents a drop of 2,500 hours from the June 2002 balance of 210,724 hours, but an increase of 1,090 hours from the August 2001 balance of 207,134 hours.

**GENERAL FUND (CONT'D.)**

**EXPENDITURES (CONT'D.)**

<u>Department</u>	2002-2003 <u>Budget</u>	YTD <u>Actual</u>
<b>Fire</b>	<b>\$ 108,217</b>	<b>\$ 15,634</b>

Overall, expenditures for the Fire Department appear to be tracking at slightly lower than estimated levels through August (14.4%, compared to par level of 15.3%). This is very misleading, however, as the Department's Personal Services expenditures are tracking at much higher than budgeted levels, reflecting current paramedic staffing deployment. The Department currently has a total of 195 filled front-line (122) and support (73) paramedics, the highest number it has ever had in the Department's history. The front-line total is, however, still short of the 146 that are necessary to fully staff all apparatus. Last year, to address the staffing imbalance, and stay within their budget, the Department filled front-line paramedic duty requirements by deploying both front-line and support paramedic personnel. This process has been temporarily suspended since July to conduct an assessment of the impact of the "dual role" practice. This suspension has, however, resulted in the Department's Personal Services tracking much higher than expected. Should this situation continue through the rest of the year, and all budgeted activities were to be implemented, it is projected that the Department would exceed its Personal Services appropriation by as much as \$4.0 million. The Department is working with the City Manager's Office and the union on strategies to address both the short-term staffing issue, as well as various long-term strategies to close the gap in front-line paramedics (e.g., accelerated accreditation process, sending Firefighters to Paramedic School, and conducting Firefighter Paramedic Recruit Academies).

Current estimates indicate that the Department's level of Non-personal/Equipment expenditures at year-end should be within its appropriation.

<u>Department</u>	2002-2003 <u>Budget</u>	YTD <u>Actual</u>
<b>City-Wide Strategic Support</b>	<b>\$ 39,248</b>	<b>\$ 6,033</b>

The City-Wide Strategic Support category includes funding for Workers' Compensation Claims. The City began to experience a spike in claims costs at the end of last year, and the budgeted estimate was exceeded. Through August, claims payments have continued to track well above estimated levels. Current information indicates that the problem is not an increase in claims, but rather a significant increase in the cost per claim. Preliminary departmental projections indicate a shortfall of between \$1.5 and \$2.5 million by year-end. An initial augmentation of \$500,000 to this appropriation is recommended in the Annual Report. The Budget Office is working with the Employee Services Department to provide additional information and analysis, and will report the findings through the Monthly Financial Report process.

## **GENERAL FUND (CONT'D.)**

### **CONTINGENCY RESERVE**

Through August, the General Fund Contingency Reserve was down by \$27,500 from the 2002-2003 Adopted Budget level of \$24,549,175 (to \$24,521,675). The following revision to the Contingency Reserve was approved through August:

- A decrease of \$27,500 to provide matching funds for an Office of Criminal Justice Planning "Domestic Violence" grant.

## **OTHER FUNDS**

### **Construction and Conveyance Tax Funds**

Continuing the positive trend experienced in this revenue source last fiscal year, collections through the first few months of the year are exceeding both prior year end budgeted estimates. Total year-to-date revenue received through August is \$2.75 million, of which \$2.1 million is actual tax revenues (13.1% of the 2002-2003 estimate of \$16 million), and \$657,000 is comprised of transfers between funds, grant revenues, and interest earnings. The year-to-date level of collection is 7.3% higher than the same period last year and August revenues were 8.1% higher than August 2001. In addition to the August revenues reflected in this report, the City has since received September Conveyance Tax receipts totaling \$2.1 million. This amount is 5.0% higher than the September 2001 amount of \$2.0 million. The 2002-2003 budgeted estimate allows for a 39.0% decrease from the 2001-2002 collection level. This drop is higher than originally intended because collections in 2001-2002 so significantly exceeded expectations. While the news remains positive in this area, continued caution will be exercised when projecting these receipts, pending the receipt of additional information. We are concerned that the prolonged economic downturn could still negatively impact housing sales, which generate this revenue.

### **Other Construction-Related Revenues**

After tracking below prior year levels in July, construction-related tax revenues recovered somewhat in August. As a result, year-to-date receipts are slightly higher than receipts over the same period last year and are outperforming conservative budgeted estimates. The year-to-date total of the five revenue sources monitored for this report is \$5.4 million, an increase of 17.2% from the \$4.6 million collected through the same period last year. On an overall basis, this performance is stronger than adopted budget estimates that allow for a 9.4% drop from the prior year. It should be noted, however, that this strong performance is due to unusually high collections in August especially for commercial activity and residential alterations. This performance is unlikely to be duplicated on an ongoing basis. Further, staff and consultant analyses confirm that surplus capacity in industrial real estate is still present in San Jose, which will likely depress construction-related taxes for several quarters to come.

## **OTHER FUNDS (Cont'd.)**

### **Other Construction-Related Revenues (Cont'd.)**

The revenue picture is somewhat mixed across several individual sources in this category. The major revenue sources – Building and Structure Construction Taxes and Construction Excise Taxes – outperformed year-to-date estimates. Building and Structure Tax receipts through August totaled \$2.0 million (22.3% of the current 2002-2003 estimate of \$8,874,000), representing an increase of 9.8% over the revenues collected through the same period last year (\$1.8 million). The budgeted estimate for this category allows for an 8.1% drop in 2002-2003. Construction Excise Tax revenues through August totaled \$3.2 million (23.2% of the current 2002-2003 estimate of \$13,660,000), representing a 21.2% increase over last year's \$2.6 million received over the same period. The budgeted estimate for this category allows for an 8.2% drop in 2002-2003. Given atypically strong August receipts in both these revenue categories, however, caution should be used in projecting these trends forward.

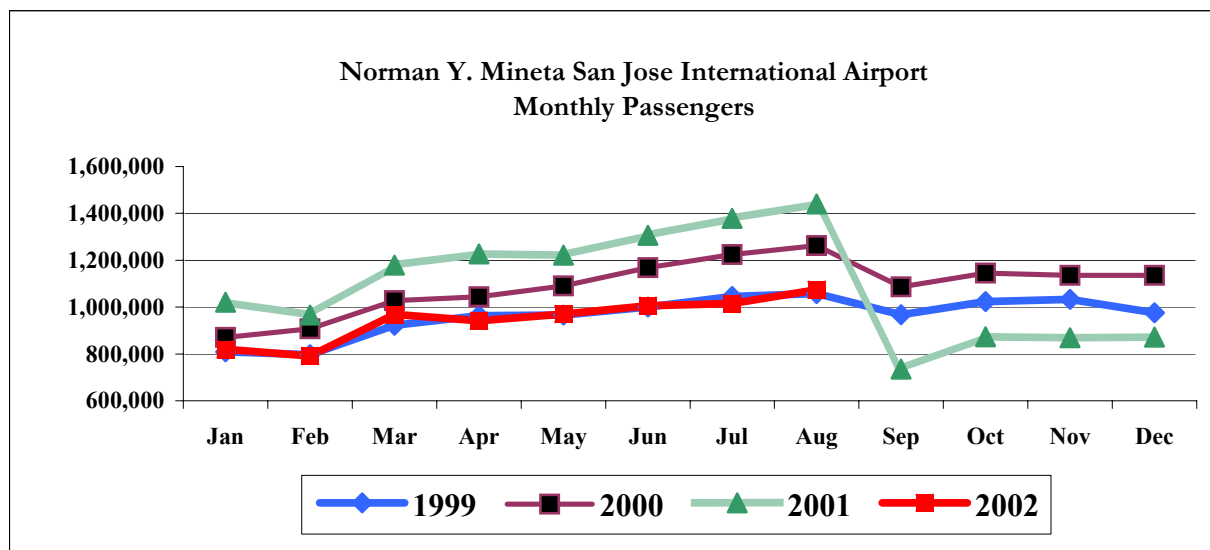
Among the smaller revenue categories, Sanitary Sewer Fees outperformed prior year data, while Residential Construction Taxes and Storm Drain Fees were down significantly from prior year collection patterns. Sanitary Sewer Fee receipts through August totaled \$221,000 (31.5% of the current 2002-2003 estimate of \$703,000), a level equal to nearly twice last year's \$112.9 million collected over the same period. In contrast, fee receipts through August for the Storm Drain Fees totaled \$51,822 (14.8% of the current 2002-2003 estimate of \$351,000), which corresponds to 71.0% of the \$73,000 received over the same period last year. Residential Construction Tax receipts through August reached \$15,000 (10.0% of the current estimate of \$153,000), which corresponds to 42.9% of last year's receipts of \$36,000 through August. Staff will continue to monitor these revenues closely.

### **Airport Funds**

Through August, the Norman Y. Mineta San Jose International Airport enplaned and deplaned nearly 2.1 million passengers, which was 25.9% less than the prior year. For the month of August, the Airport served approximately 1,074,363 passengers, a 25.4% reduction from August 2001 passenger activity. Terminal C passenger activity decreased 25.2% in monthly comparisons, while activity for the fiscal year is lower by 25.4%. For Terminal A, August passenger activity decreased by 25.6% from August 2001 and 26.2% for the fiscal year.

## OTHER FUNDS (Cont'd.)

### Airport Funds (Cont'd.)



As reflected in the above chart, the major U.S. airlines continue to experience sharp declines in passenger activity. Activities in calendar year 2002 are tracking almost exactly at the 1999 level. Industry analysts attribute the slow recovery to the reluctance of frequent business travelers to resume their former travel patterns due to the economic recession and the hassles of airport security. American Airlines' San Jose activity level decreased by 37.7% while Southwest activity was lower by 9.6% in fiscal year comparisons. Northwest Airlines and two Commuter airlines (Horizon Air and Skywest) were the only scheduled San Jose passenger carriers that experienced growth over last fiscal year. Skywest totals (+282.2%) continue to be greatly impacted by the airline's increased role as United's regional carrier to Los Angeles as part of the United's expanded Express service. Northwest saw a fiscal year increase of 9.2%, and Horizon reported a 45.1% increase. Beginning October 1, American Trans Air (ATA) will begin twice daily, non-stop flights between Chicago and San Jose using 195-passenger Boeing 757-200 aircraft. As part of American Airlines' fall/winter, system-wide 9.0% capacity reduction, effective December 15, the carrier will eliminate its four regional jets from SJC to Phoenix, reduce five full-size jets to San Diego to four regional jets, and downsize eight full-size jets to regional jets to Los Angeles. Also, on August 1, American Airlines discontinued its three daily flights to Denver. However, serving as a replacement for this lost service, Frontier Airlines will offer non-stop flights, six days per week, between SJC and Denver beginning October 22.

Fiscal year-to-date mail, freight and cargo poundage totaled nearly 52.4 million pounds, a 5.1% decrease from 2001-02. The decrease is largely attributed to a 61.6% reduction in mail and a 37.8% drop-off in freight. However, international cargo and domestic cargo posted a 21,070% and 3.4% increase, respectively, from the prior year. The overwhelming increase in international cargo activity is somewhat skewed as one of the major cargo carriers had temporarily suspended

## **OTHER FUNDS (Cont'd.)**

### **Airport Funds (Cont'd.)**

enplaned international cargo between June 2001 and late August 2001. As a result, year-to-date reporting only reflected only a few days of international cargo activity for August.

Despite the reduced activity levels, overall revenue collections in the Airport Revenue Fund tracked at anticipated budgeted levels. Combined revenues from Landing Fees and Terminal Rentals tracked at 99.0% of budgeted levels. Other Revenue collections through August 2002, which includes Parking and Terminal Concessions, tracked slightly higher than estimated budget levels. Revenues from the Airport Customer Facilities and Transportation Fee Fund were at 95% of the anticipated budget level.

Airport Department operating fund expenditures through August tracked slightly below budgeted levels in both Personal and Non-personal/Equipment Services. Through August, the Airport had 63 vacancies, of which 31 were defunded for 2002-2003. The remaining 32 positions are funded and five of these are currently backfilled. Through August, a total of 12 positions were exempted from the hiring freeze as these positions were deemed to be critical to customer service and/or the opening of the new Federal Inspection System building in mid-October. The Airport continues to review all vacant positions on an administrative case-by-case basis in an effort to maximize cost savings while providing necessary services. Non-personal/Equipment expenditures through August, excluding encumbrances, totaled 7.6% of budget, and tracked slightly below anticipated levels. Encumbrances of \$13.3 million bring total non-personal commitments to 36.3% of budget.

## **CONCLUSION**

While still early in the year, economic indicators and City revenue collections confirm that we remain in the grip of a severe economic slowdown, with no indications of any likelihood of improvement in the near term future. Although through prudent planning we have placed the City in a relatively strong fiscal position, to stay in that position we need to continue to act quickly and decisively to new information regarding our fiscal position.

As discussed in the 2001-2002 Annual Report, the latest information related to the City's revenue collections last year and to this point in the current fiscal year, has indicated that downward revisions to a number of the General Fund revenue sources, most prominently Sales Tax, are necessary. Approval of those revisions, along with the establishment of a Reserve for 2003-2004 Deficit, is recommended in that report. We, of course, will continue to monitor events closely and bring recommendations for any additional adjustments to either revenue or expenditure budgets to the Council, if appropriate, through the Monthly Financial Report process and the Mid-year Budget Review.

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Budget Director